FLUCTUATIONS IN THE SECURED CIRCULATION OF THE NATIONAL BANKS AND THEIR RELATIONS TO THE PRICES AND INVESTMENT VALUES OF BONDS.

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Against the national banking system there has always been the complaint of the opponents of the system that the banks were able to draw "double interest," because they received the interest on their bonds while making a profit by the loan of the currency based upon the bonds.

The criticism was strongest, perhaps, at the very moment when the banks began to find circulation unprofitable. The familiar rule of all financial speculations, that valuable securities become less profitable than more hazardous ones because of the high premium at which they sell, operated in the case of the United States bonds. The resumption of specie payments, the adherence to the policy of paying interest in gold, and the undoubted credit of the government, made "the bond-holder" an envied individual, but it also made the holding of the bonds as a permanent investment less profitable than the sale of them while the price was high.

Every year that brought the bond nearer to maturity lessened the selling price, and made it more desirable, up to a certain time, for the alert financier to dispose of his property at a premium rather than hold it drawing a moderate rate of interest until he should be obliged to accept its bare face value on the date of its maturity. It became a simple mathematical proposition for the national banks whether it were more profitable to market the bonds and lose the small profit on circulation or to retain them and lose the benefit of their high prices. The question was substantially the same, as a mere abstract question of mathematics, whether a bank

already owned the bonds or whether a new corporation went into the market to buy them. What the new bank was obliged to pay the old bank was losing by failing to sell. How futile even the charm of "double interest" proved against the temptation of better-paying investments, and how the national bank-note circulation changed with changed conditions, I have endeavored to show at a glance in the following summary table of the state of the banks and the bond market for a series of years:—

Date.		Authorized Capital Stock.	Circulation Secured by Bonds.	4 Per Cent Bonds. Price.	Investment Value.
1882.	January.	$470,018,135	$332,398,922	117.75	3.008
	July.	486,511,335	320,312,832	119.12	2.922
1883.	January.	492,076,635	322,386,120	119.62	2.901
	July.	507,208,135	319,249,806	119.12	2.926
1884.	January.	518,031,135	310,953,321	123.75	2.665
	July.	528,784,165	299,369,370	118.75	2.918
1885.	January.	529,910,165	285,496,055	121.90	2.726
	July.	531,540,465	279,528,175	122.64	2.668
1886.	January.	534,378,265	274,466,748	123.43	2.607
	July.	545,206,565	247,087,961	126.49	2.420
1887.	January.	555,865,165	205,316,106	127.83	2.320
	July.	574,703,665	171,629,341	127.84	2.284
1888.	January.	584,726,915	165,205,724	126.12	2.341
	July.	592,852,915	159,642,657	127.48	2.230
1889.	January.	598,239,065	146,372,588	127.29	2.208
	July.	609,670,365	132,244.437	128.38	2.109
1890.	January.	623,791,365	127,742,440	125 61	2.236
	July.	646,937,865	129,767,150	122.32	2.407
1891.	January.	665,257,865	125,660,361	120.92	2.463
	July.	676,247,865	127,221,391	117.33	2.676
1892.	January.	685,762,265	140,084,203	116.67	2.693
	July.	692,123,665	145,683,023	116.45	2.677
1893.	January.	....	150.526,651	114.00	2.864
	July.	....	157,901,099	109.75	3.179

The essential feature of the table is that the secured circulation of the national banks has until the last two years been steadily diminishing as the investment value of the bonds declined. The national banking act requires a minimum deposit proportioned to the capital stock of the institu-

tion, so that no bank, without going out of business, could dispose of its entire holdings of bonds; yet so general was the movement to retire circulation which had become unprofitable and dispose of the bonds that the reports to the Comptroller of the Currency for October 2, 1890, showed that out of a total sum of $139,969,050 in bond deposits $101,247,615 was required by law, and only $38,721,435 was voluntarily on deposit to obtain the benefit of additional circulation.

The maximum secured circulation of the national banks of the country, after the redemption of specie payments, was reached in January, 1882, and the amount showed no tendency to increase for nine years after that date. The fall was slow until the beginning of 1884, in which year it averaged about $2,000,000 per month. The process of reduction was somewhat arrested during the next year, only to advance at a greatly quickened pace in 1886. The decline of circulation secured by bonds was from $274,466,748 on January 1, 1886, to $205,316,106 on January 1, 1887, an average decline of nearly $6,000,000 per month. The volume of outstanding circulation secured by bonds was now so reduced that the aggregate decline year by year was smaller, but the rate of decline continued nearly as great as before until the year 1890, when a comparatively stationary point was reached.

The striking fact about the decrease in secured circulation down to 1891 is that it has not been accompanied by any decrease in the number of national banks or in their aggregate capital stock. The organization of new institutions for the purpose of banking, exclusive of large issues of circulation notes, has gone steadily on while the older banks have been retiring their circulation. Not since 1879 has there been any decrease in the number of national banks. The net increase in the number of banks in the year ending October 31, 1880, was 45, and in 1883 the number was 220. This number was not reached again until 1890, when the net

increase was 248. It has been less for the three years which have followed, but the number of banks on October 31, 1892, was 3,738, and the aggregate capital was $693,868,665.

The sensitiveness of the banking interest to changed conditions, and the element of elasticity which bank-note circulation is capable of adding to the currency have been most strikingly shown within the past year. There was some increase in the circulation, based upon bonds during the two years since August, 1891, but this increase was only $9,000,000 during the last five months of 1891, and only $12.000,000 more during the next year, to January, 1893. The increase during the first half of the present year, also, was only $7,374,448, but July and August have shown a wonderful expansion. The increase in circulation secured by bonds was $5,320,194 during July, and has already been $6,784,835 during the first fifteen days of August. The latter figure is that of the notes actually issued. The bonds deposited to obtain new circulation have reached the amount of $14,452,550, and the orders for new bank notes, for which bonds will be deposited when the notes are printed, if they have not already been, reach the almost unprecedented amount of $25,511,450 for fifteen days.

The turning point in the aggregate circulation did not come as quickly as in the circulation based upon bonds, because of the reduction going on in the dead circulation which was in process of retirement while the live circulation secured by bonds was on the increase. The cancellations having come nearly to a standstill, the increased issue of live circulation shows in the totals, and these figures have advanced from $178,614,535 on July 1st to $183,655,920 on August 1st, and $190,193,462 on August 15th.

The rate of interest realized by investors on the four per cent bonds was at its lowest point in the quarter beginning with April, 1889. It was soon after this that the circulation secured by bonds reached nearly its lowest point, and became stationary. The value of bonds as an investment had been

falling since the beginning of 1885, when the process of retirement was attaining momentum. The value began to rise again towards the close of 1889, and reached a figure in the middle of 1890 which practically ended the retirement of bank-note circulation. The premium dropped from nearly 121 to 116.75 during 1891, and the circulation secured by bonds advanced from $125,660,361 at the beginning of the year to $140,084,203 at the beginning of the next year.

Such a sensitiveness to a slight change in the investment value of a bond shows upon what narrow margins the banking transactions of today depend. The "double interest" which was supposed by the demagogues to be piling up such fabulous fortunes for the bankers proved an insufficient attraction to keep their circulation afloat when the bonds fell off a fraction of a cent in paying value. It was only when the demand for currency began to grow that the issue of bank-note circulation again became profitable, and led to the large increase of the past few months. There is an opportunity to make the banking system more responsive to the occasional demands for currency by increasing the proportion which the notes issued bear to the face value of the bonds. This was fixed at ninety per cent in the original act, with a just regard to the discount on bonds, but there is perfect security today in fixing it at one hundred per cent, and affording the banks an opportunity to increase their present volume of circulation by about eleven per cent. It would add but a minute fraction to their profits, but that fraction might turn the scale in favor of increased circulation when the country was most in need of it.

This change of the law has been recommended by at least four successive comptrollers of the currency, and has several times been favorably reported upon by committees of Congress. It is now embodied in a bill under discussion in the Senate, and which seems likely to become a law. The question of thus increasing our monetary circulation through the national banking system becomes of greater importance than

heretofore, if the means of expanding the circulation which exist in the silver act of February 28, 1878, and the later act of July 14, 1890, are brought to an end. The repeal of the Sherman law will leave only two available avenues of increasing the circulation to keep pace with the growing population and volume of business in the country. Those means are the importation of gold, which can be converted into gold certificates upon presentation at the Treasury, and the increase of national bank-note circulation. The latter device may not be adequate for a prolonged future, but it is likely to afford an element of growth in the volume of the circulating medium sufficient to enable Congress to deliberate, for two or three years if need be, upon the substitution of a simple and sound currency system for our present complicated and uncertain conglomeration of gold coin, silver coin, gold certificates, silver certificates, United States notes, Treasury notes, and national bank notes.